

USPS-T-3

## BEFORE THE POSTAL RATE COMMISSION WASHINGTON, D.C. 20268-0001

EXPERIMENTAL FEES FOR NONLETTER-SIZE BUSINESS REPLY MAIL, 1996

DOCKET NO. MC97-1

DIRECT TESTIMONY
OF
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ON BEHALF OF
UNITED STATES POSTAL SERVICE



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#### **AUTOBIOGRAPHICAL SKETCH**

My name is Dave Fronk. I am a Senior Economist in the Office of Pricing. My primary duties are to develop Postal Service domestic rate and fee proposals. Specific areas of responsibility include First-Class Mail and Business Reply.

I joined the Postal Service in 1996. Prior to joining the Postal Service, I worked for 15 years as an economic and management consultant. For 10 of those years, I was employed as an Associate, Senior Consultant, and Principal by the consulting firm of Putnam, Hayes & Bartlett, Inc. (and a San Francisco firm which merged into it). For approximately five years, I maintained my own independent consulting practice. My consulting work included ratemaking and forecasting analysis in the electric utility and telecommunications industries. I also worked on a large number of commercial disputes (antitrust, licensing, etc.), primarily in high technology industries. This work frequently involved preparing pricing and demand analyses under alternative assumptions about costs, business conditions, future growth, and competitive response.

Earlier in my career, I also worked as an Economist at the Federal Trade

Commission and the Internal Revenue Service, and as a Financial Management Analyst
at NASA.

I received a BA in economics and history from the University of Minnesota in 1973. I also hold an MA in economics from the George Washington University (1979) and an MBA from Stanford University (1980).

This marks my first appearance as a witness before the Postal Rate Commission.

#### I. PURPOSE OF TESTIMONY

2	The purpose of this testimony is to describe the Postal Service's proposed
3	experimental change in the way nonletter-size Business Reply Mail (BRM) is both
4	classified and priced. My testimony will discuss why an experiment is needed, what the
5	Postal Service intends to accomplish with the experiment, how the Postal Service plans to
6	structure the experiment, and how this request meets the Commission's requirements for

an experimental change, as described in 39 C.F.R. § 3001.67. My testimony will also

8 propose the specific experimental pricing and classification changes.

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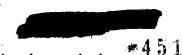
#### II. CONTEXT OF THIS PROPOSAL

BRM pricing currently involves an annual fee for a mailing permit, a separate annual fee for optional advance deposit accounting, and a per-piece fee. These fees are in addition to basic First-Class Mail or Priority Mail postage, as appropriate.

For nonletter-size BRM, the per-piece fee was established to recover the Postal Service costs associated with counting, weighing, and rating this type of BRM. These functions were largely manual operations, requiring Postal Service employees to calculate postage and fees for each individual piece of BRM. At present, the per-piece fee for nonletter-size BRM is \$0.10 when the customer maintains an advance deposit account.

Because it was time-consuming to calculate the postage and fees for recipients of large volumes of nonletter-size BRM, it made sense operationally for the Postal Service

<sup>&</sup>lt;sup>1</sup> Letter-size mail in this context includes cards. Letter-size mail is compatible with Postal Service automation equipment and is eligible for the prebarcoded fee of \$.02 per piece if the requirements of the Business Reply Mail Accounting System (BRMAS) are met.



to take the initiative and work with BRM recipients to explore streamlining the standard,

2 piece-by-piece approach to calculating postage and fees. Two methods of streamlining

this calculation have evolved, which allow the Postal Service to deliver this mail faster

and which make it less expensive for the Postal Service to determine the postage and fees

5 in some circumstances. This streamlining has raised the issue of whether the fee structure

6 for BRM should be changed to reflect these cost differences for nonletter-size BRM.

Under the first method, which has been used as a local option for some time, the Postal Service calculates the postage and fees, but uses a weight-averaging approach rather than a manual piece-by-piece method. This weight-averaging approach involves periodically determining the average postage due per pound of BRM, and then routinely applying this average to daily BRM poundage to compute postage and fees for the day.

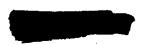
Under the second, more recently developed method, the BRM recipient performs the calculation of postage and fees for each incoming piece using a reverse manifest. For details on how both the reverse manifest and weight averaging methods work, see the Direct Testimony of Joe DeMay on Behalf of United States Postal Service, USPS-T-1.

Under either method, the processing of nonletter-size BRM is less labor-intensive as it no longer involves a manual piece-by-piece weighing and rating calculation by postal personnel. The Postal Service uses sampling as the means of attempting to ensure the accuracy of this streamlined postage and fee determination. For a reverse manifest, the Postal Service samples incoming BRM and then later finds the sample pieces on the customer-generated reverse manifest to verify that the postage and fees were correctly computed. For weight averaging, sampling is used to determine the average postage and fees per pound.

To get an initial understanding of the costs and processing issues associated with

2 the reverse manifest and weight averaging methods of processing nonletter-size BRM, the

- 3 Postal Service took two steps. First, the Postal Service requested that Christensen
- 4 Associates perform a nonletter-size BRM cost study. This cost study focused on the costs
- 5 of calculating postage and BRM fees using the two methods described above. It included
- 6 three large-volume BRM recipients one maintaining a reverse manifest system (Nashua
- 7 Photo Inc. or "Nashua") and two where the weight averaging method is in use (Mystic
- 8 Color Lab or "Mystic," and Seattle FilmWorks, Inc. or "Seattle"). The results are
- 9 presented in the Direct Testimony of Leslie Schenk on Behalf of United States Postal
- 10 Service, USPS-T-2.
- Second, in conjunction with the observations of witness DeMay and the work of
- witness Schenk, the Postal Service BRM Business Process Re-Engineering task force has
- initiated the development of internal postal sampling, auditing, and verification
- procedures for the reverse manifest and weight averaging methods. The task force also
- has developed administrative and quality control procedures which can be tested on BRM
- recipients and which have the potential to allow for expedited BRM accounting practices
- while ensuring that postal revenues are protected. See USPS-T-1 and Draft Publication
- 18 405, "Guide to Business Reply Mail," which is presented as USPS Library Reference
- 19 EBR-3.
- 20 These Postal Service efforts indicate a new pricing structure may be required to
- 21 align nonletter-size BRM fees with costs. This is because the reverse manifest/weight
- 22 averaging methods involve three types of costs: (1) set-up costs to establish the BRM
- 23 recipient's "system" and make sure it will accurately estimate postage, (2) fixed costs



associated with activities such as Postal Service sampling, and (3) per-piece costs that

2 vary with volume.<sup>2</sup>

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#### 4 III. PROPOSAL

#### A. Description of Proposed Experimental Fees

- The Postal Service wishes to offer an experimental classification and pricing
- 7 change for nonletter-size BRM processed using an advance deposit account (that is,
- 8 nonletter-size BRM currently subject to the \$.10 per piece fee). The requested duration
- 9 for this experiment is 24 months, as discussed in detail later.
- The current fee schedule for BRM is presented in Schedule SS-2 of the Domestic
- 11 Mail Classification Schedule. Proposed Schedule SS-2, with the Postal Service proposed
- 12 experimental changes underlined, is presented in Appendix A. The proposed
- 13 experimental changes are summarized as follows:

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Table 1
Proposed Experimental Changes for Nonletter-Size BRM

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<u>Method</u>	Рет-ріесе Гее	Monthly Fee	Set-Up Fee
Reverse Manifest	\$0.02	\$1,000	\$1,000
Weight Averaging	<b>\$</b> 0.03	\$3,000	<b>\$</b> 3,000

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- This pricing structure is designed to reflect our current understanding of costs.
- 21 Preliminary evidence suggests that there are cost differences between the reverse manifest

<sup>2</sup> It should be noted that the magnitude of these costs varies depending on which alternative is used.



and weight averaging approaches to calculating BRM postage due, resulting in a lower

- 2 fees for reverse manifest BRM. Also, Postal Service sampling and verification
- 3 procedures have an important fixed or constant component that does not appear to vary
- 4 significantly with recipient BRM volume. This element of costs is to be recovered
- 5 through the proposed monthly fee. Finally, preliminary evidence indicates that there are
- 6 identifiable set-up costs associated with ensuring that a reverse manifest or weight
- 7 averaging method meets Postal Service standards. Such costs involve Postal Service
- 8 qualification of the customer's method, which includes heavy initial sampling to make
- 9 sure the method meets Postal Service requirements. Details of the overall experimental
- pricing structure are presented in Section V.<sup>3</sup>

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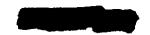
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The Postal Service recognizes that these changes would make the BRM fee schedule somewhat more complicated. One of the pricing criteria described in § 3622(b) of Title 39, United States Code, describes the need for simplicity in the entire schedule of rates and fees. This would appear to suggest that the number of rate and fee alternatives be kept to a minimum. At the same time, however, the second part of the same pricing criterion, § 3622(b)(7), describes the need for identifiable relationships between the fees charged for various postal products, which can suggest more, rather than fewer, fees. In this instance, the pursuit of simplicity needs to be balanced with the need to align fees with costs and the goal of maintaining fee relationships that are sensible and understandable. The proposed fee structure, while novel in the postal context, is already in use in other areas of the economy. For example, the pricing of telephone service

The proposed fees in Table 1 are in addition to the existing annual fee for a BRM permit and the annual fee for advance deposit accounting.



- typically includes an upfront installation or connection fee, a fixed monthly fee, and a
- 2 variable component composed of toll calls charged at a per-minute rate. As a final note,
- the fee structure would remain the same for most BRM recipients.

#### 4 B. Number of Participants and Eligibility

#### 5 1. Number of Participants

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The Postal Service believes that the experiment could usefully include 10 to 20 6 participants. This range results from two primary factors. First, given the estimated cost 7 and processing differences between the reverse manifest and weight averaging methods, 8 the Postal Service will strive to include several participants using each method, in 9 approximately equal numbers. Thus, the experiment could include up to 10 weight 10 11 averaging participants and up to 10 reverse manifest participants, depending on the number of qualified BRM participants and the ability of local postal facilities to do what 12 is necessary for the implementation of the experimental procedures. 13

Second, given potential differences in BRM characteristics across customers, the Postal Service is interested in including recipients from a variety of industries. For example, preliminary evidence for the film processing companies indicates seasonality in film processing, with the summer months and post-holiday periods typically the busiest. Also, certain types of processing, for example, heavier weight single-use (or disposable) cameras, appear to be more typical in the summer. Thus, in the film processing industry both daily volume and weight mix may vary throughout the year. This may not be the case with customers in other industries. These factors would affect the sampling strategy.

In order to determine which types of BRM recipients may be interested in the experiment, we obtained data collected through the Postal Service Permit System. While



- this system does not capture all BRM mail volume, it does contain customer-level data
  - 456
- 2 for mailers accounting for about 20-25 percent of the BRM volume in FY 1995. We
- 3 focused our data review on "large" BRM recipients, where large was defined as those
- 4 having at least one site with annual BRM volume of approximately 250,000 pieces or
- 5 more. Because the Permit System does not distinguish between nonletter-size and
- 6 prebarcoded (or BRMAS) mail, we calculated an average revenue per piece for each large
- 7 recipient at each site to help identify recipients that fit the profile of potential participants.
- We then supplemented this Permit System review with the general knowledge of
- 9 Postal Service personnel in Marketing and various field locations, and with preliminary
- information obtained in the BRM practices survey conducted as part of the Christensen
- 11 Associates' cost study. Based on these sources, we identified the following industries in
- which BRM recipients may be interested in participating in the proposed experiment:
- medical diagnostic companies that supply medical tests to customers to return via BRM
- medical companies which supply items such as dentures or orthopedic devices
- insurance companies that receive photographs or videos of damaged cars or other insured items from their local agencies
- film processing companies
- market research companies that have customers try various products and then return them via BRM
- 21 greeting card companies that have their outlets return unused cards via BRM
- In determining the number of participants, the Postal Service intends to balance
- 23 the small size implicit in an experiment with the need to collect enough data to make the
- 24 experiment's results meaningful.



#### 2. Selection Criteria

- 2 Participants in the experiment will be selected by the Postal Service's Manager of
- 3 Product Development, who has been chairing the postal BRM Business Process Re-
- 4 Engineering task force, in consultation with the Manager of Pricing and the Manager of
- 5 Reclassification. In selecting participants, the following criteria will be applied:
- 1. The experiment will be limited to nonletter-size BRM eligible for the \$0.10 per-piece fee.

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2. Prospective participants will need to have at least one location receiving several hundred thousand pieces of nonletter-size BRM annually. This volume needs to be concentrated to make the sampling and verification processes cost-effective. A recipient whose BRM is scattered among a large number of post offices is not likely to have enough volume in any one place to make a reverse manifest or weight averaging workable.<sup>4</sup>

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3. In accordance with the above discussion on the number of participants, consideration will be given to the recipient's industry and the variability in the weight and daily volume of its mail pieces so that the experiment includes a mix of BRM recipients.

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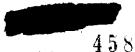
4. Recipients should be able to participate in the experiment for at least a year. This will assure that the experiment captures any variability throughout the year in the weight and characteristics of the BRM, as discussed above.

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5. In order to proceed with the experiment as expeditiously as possible, BRM recipients should be ready to participate soon after being selected.

- 27 Potential participants interested in the experiment will need to complete the
- 28 application form presented in either the reverse manifest part or the weight averaging part
- of Draft Publication 405 (USPS Library Reference EBR-3) as Exhibit 2. This

<sup>&</sup>lt;sup>4</sup> Comparing total BRM fees paid under the existing fee structure with those that would be paid under the experimental price structure, the break-even point in annual BRM volume would be approximately 150,000 pieces for a reverse manifest method, and approximately 500,000 pieces for a weight averaging method. Of course, this simple break-even calculation excludes any costs the customer might need to incur to modify existing processing to qualify for the new fees, which may be significant for the reverse manifest system. Also, since these methods typically allow the recipient to receive its BRM earlier in the day, there could be business advantages associated with the methods that would attract participants who do not quite have these break-even volumes.



application will provide the basic recipient data on BRM volumes, seasonality, weight

2 mix, industry, etc., and will aid the Postal Service in selecting participants on the basis of

- 3 the criteria described above. In some instances, it is anticipated that the Postal Service
- 4 will need to supplement the information on the application with phone calls and/or site
- 5 visits.5
- 6 BRM recipients selected for the experiment will be expected to work with the
- 7 Postal Service in testing the procedures and requirements set forth in Draft Publication
- 8 405; otherwise, they may be dropped from the experiment. Participants using a reverse
- 9 manifest will be expected to work toward meeting the accuracy requirements for
- calculation of postage and fees set forth in Draft Publication 405 (at Exhibit 4), within
- approximately 90 days of joining the experiment. Participants who fail to meet the
- required level of accuracy within approximately 90 days may be dropped from the
- 13 experiment.

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15 IV. OVERVIEW OF BRM

This section provides background information on all types of BRM. Its purpose is

- to help the Commission place the experimental proposal in context. It is not the intention
- of this section, however, to raise substantive BRM issues apart from those associated with
- the subject of this experiment for nonletter-size BRM.

Draft Publication 405 includes descriptions of application/approval processes for both the reverse manifest and weight averaging methods that were contemplated by the task force before the Postal Service decided to propose this experiment. The selection process described in this testimony will be used to select participants for this experiment.



#### A. Characteristics of BRM

2 BRM is used by businesses and organizations to pay the cost of return cards,

3 envelopes, or small parcels from their customers. These return cards, envelopes, or small

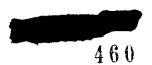
4 parcels travel as First-Class Mail. In addition to basic First-Class Mail or Priority Mail

5 postage, as appropriate, a business reply fee is charged to cover the costs of assessing and

6 collecting the postage.

BRM recipients can distribute pre-addressed cards or envelopes to potential or current customers or correspondents. BRM is more cost-effective in many cases than supplying a prepaid postage envelope or postcard, unless the probability of such a piece being returned is quite high. BRM enhances commerce by facilitating access to services offered by firms. In addition, BRM facilitates a customer response to activities such as promotions, surveys, and fund-raising appeals by reducing the transaction costs to the customer. Substitutes for BRM include prepaid envelopes, courtesy reply envelopes, and toll-free telephone numbers, and, for parcels, merchandise return service.

Every BRM recipient pays the annual fee of \$85. If only this permit fee is paid, the recipient pays \$0.44 per piece, in addition to the appropriate postage. However, if the user establishes an advance deposit account for the payment of BRM postage and pays the annual accounting fee of \$205, the advance account holder will pay a much lower per piece fee. If the pieces are prebarcoded and meet all BRMAS requirements, the advance deposit account holder pays \$0.02 per piece. For non-BRMAS pieces, the advance deposit account user pays \$0.10 per piece.



#### B. Fee History and Current Revenues

#### 2 1. Fee History

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from \$40 to \$50.

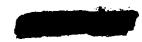
differential. Fees depended on whether pieces weighed under two ounces or over two 4 5 ounces. These fees were changed twice, in 1974 and 1975. In 1976, the weight differential was eliminated, and a differential based on payment method was introduced. 6 7 The piece fee was 12 cents unless the permit holder chose to pay an additional annual 8 accounting fee of \$75 and maintain an advance deposit account. The per piece fee for 9 advance deposit account holders was 3.5 cents. The permit fee required of all business reply recipients was \$30. In Docket No. R80-1, per piece fees increased to 18 cents and 10 11 5 cents for non-advance and advance deposit accounts, respectively. The permit fee 12 increased to \$40. In 1985, the per piece fees rose from 18 cents to 23 cents for non-advance deposit 13 14 accounts, and from 5 cents to 7 cents for advance deposit accounts. The accounting fee

At the time of postal reorganization, business reply fees contained a weight

In 1988, the permit and accounting fees were combined into one fee of \$260 for advance deposit accounts. The permit fee for non-advance deposit accounts increased to \$60. In addition, the fee of 5 cents for prebarcoded (BRMAS) advance deposit pieces was introduced. For prebarcoded pieces, the per piece fee fell from 7 cents to 5 cents. For all other advance deposit pieces, the per piece fee increased from 7 to 8 cents. The per piece fee for non-advance deposit pieces increased from 23 cents to 40 cents.

for advance deposit account holders rose from \$75 to \$160, while the permit fee increased





As a result of Docket No. R90-1, the permit and accounting fee were again

- separated in 1991 into \$185 for the accounting fee and \$75 for the permit fee. The
- 3 prebarcoded fee dropped to 2 cents per piece, and has remained at that level. The fee for
- 4 all other advance deposit pieces increased to 9 cents. The per piece fee for non-advance
- 5 deposit remained at 40 cents.
- Fee revisions resulting from Docket No. R94-1 took effect in 1995. The permit
- 7 fee increased to \$85 and the accounting fee increased to \$205. For advance deposit
- 8 accounts, the non-automatable fee increased to 10 cents per piece. For non-advance
- 9 deposit accounts, the per piece fee increased to 44 cents.

#### 10 2. Current Revenues

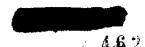
- In 1995, revenues from BRM fees were \$136.7 million. Of this total,
- approximately \$45.3 million was permit fee revenue and \$91.3 million was from per-
- 13 piece fees.

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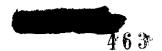
- Of the \$91.3 million in per-piece fees, \$26.6 million was associated with non-
- advance deposit accounts that paid the \$.44 per-piece fee. For advance deposit accounts,
- 16 BRMAS per-piece fees amounted to \$13.2 million, and non-BRMAS fees accounted for
- about \$51.5 million. Candidates for the proposed experiment are included among those
- currently paying per-piece fees amounting to this \$51.5 million annually.

#### C. Volume History

- Volume trends for all types of BRM are shown in Table 2. The present structure
- of fees for BRMAS (or prebarcoded) and non-BRMAS BRM was not implemented until
- 22 1988, with corresponding volume data available beginning in 1989. Since 1991, the
- volume of non-BRMAS BRM has fluctuated between about 450 million and 600 million



- pieces. No clear trend is demonstrated, but it does seem that non-BRMAS BRM has not
- been a growth segment. Non-BRMAS BRM volume for 1995 is virtually the same as
- 3 1991 volume. Over the same period, however, BRMAS BRM volume increased
- 4 substantially.



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# Table 2 Business Reply Mail Volume Trends (In millions)

Fiscal <u>Year</u>	Two ounces or less	Over two	Total
<u> </u>	<u>01 1633</u>	<u>ounces</u>	<u>Volume</u>
1970	<b>70</b> 7	26	733
1971	<b>8</b> 03	28	832
1972	<b>7</b> 27	34	<b>76</b> 0
1973	<b>7</b> 70	26	<b>7</b> 96
1974	<b>73</b> 6	27	<b>7</b> 63
. 1975	947	22	969
1976	<b>7</b> 71	26	798

	Advance			
	Account -	Advance	Non-	
Fiscal	BRMAS	Account -	advance	Total
<u>Year</u>	(Prebarcoded)	non-BRMAS	Account	<u>Volume</u>
1977		. <b>78</b> 5	43	828
1978		848	43	<b>89</b> 1
1979		802	39	841
1 <b>98</b> 0		<b>70</b> 3	38	741
1981		848	36	884
1982		1,086	35	1,121
1983		916	30	946
1984		1,008	38	1,046
1985		1,034	31	1,065
1 <b>98</b> 6		899	25	924
1987		<b>9</b> 39	35	974
1988		1,061	42	1,102
1989	324	565	31	920
1990	268	<b>68</b> 6	43	<del>99</del> 7
1991	328	527	29	883
1992	310	591	44	<b>94</b> 5
1993	665	513	56	1,234
1994	567	443	57	1,068
1995	662	526	62	1,250
				•



#### V. RATIONALE FOR EXPERIMENTAL FEES

The cost evidence put forth by witness Schenk indicates lower per-piece fees may

- 4 be warranted for recipients using a reverse manifest or weight averaging for their
- 5 nonletter-size BRM. There are two general areas of uncertainty in these costs, however.
- 6 First, the cost data cover just one reverse manifest customer, Nashua, and two weight
- 7 averaging customers, Mystic and Seattle, in only one industry. At present, it is unclear
- 8 how representative these costs are of other nonletter-size BRM recipients.
  - Second, as described in the testimony of witness DeMay, the reverse manifest and weight averaging procedures currently employed need significant refinement to ensure that postal revenue is protected. Witness Schenk describes modifications in the reverse manifest and weight averaging procedures that will improve the accuracy of the postage and fee estimates, but will also increase costs.

The experiment will address these areas of uncertainty. It will help us confirm our understanding of the underlying cost structure for both the reverse manifest and weight averaging methods, including the appropriate level of set-up costs. Also, it will help us obtain evidence on costs when both approaches are held to acceptable standards of accuracy. In addition, it will test ongoing concerns regarding the difficulty in administering weight averaging in a way that maintains high quality standards. Finally, it will help us determine the costs of using these methods for a wider range of nonletter-size BRM recipients.



#### A. Determining Experimental Fees for Reverse Manifest Customers

#### 2 1. Discussion of Reverse Manifest Costs

As the testimony of witness Schenk demonstrates, a single, per-piece fee for

- 4 processing reverse manifest BRM does not adequately reflect the underlying cost
- 5 structure. Reverse manifest costs are essentially a constant dollar amount per sample,
- 6 which reflects the cost of drawing the sample, checking it against the manifest, and
- 7 performing the necessary calculations. Witness Schenk estimates these costs to be \$164
- 8 per sample, assuming her recommended changes in the sampling procedures are
- 9 implemented. Alternatively, if a BRM recipient typically processes 30 days a month and
- 10 a sample is drawn daily, witness Schenk estimates the monthly cost to be approximately
- **\$4,908**.

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Ultimately, based on Postal Service experience with outgoing manifests<sup>6</sup>, it should not be necessary to perform reverse manifest sampling on a daily basis. After an initial start-up period of heavy sampling to ensure reliability, random Postal Service verification on the average of once or twice per week may be sufficient. For current outgoing manifest systems, once a system has demonstrated its reliability, sampling is done only periodically. If the accuracy of the outgoing manifest system slips, remedial action is taken and more frequent sampling is performed. If periodic sampling once or twice a

<sup>&</sup>lt;sup>6</sup> The terms outgoing manifest and incoming, or reverse, manifest are from the postal customer's point of view. Thus, an outgoing manifest is one prepared at the time a customer enters mail into the mail stream. A reverse manifest is prepared by the customer, in this case a BRM recipient, at the time mail leaves the mail stream.



week was sufficient, this would reduce the estimated \$4,908 monthly cost by about 80

There are, however, several sources of uncertainty regarding the applicability of

2 percent<sup>7</sup> - to about \$1,000 a month.

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these cost data to other customers who might use a reverse manifest for BRM. First, as 4 noted above, these cost data cover a single customer with a certain variability in the 5 6 weight mix of its BRM pieces. If other customers in other industries had more or less 7 variability in the weight mix of BRM pieces, or a different pattern of seasonality in BRM received, a different sampling strategy might be required. This could affect the cost per 8 sample. Second, witness Schenk's cost study covers a situation where the mailer has not 9 10 yet achieved the required level of accuracy. As a result, sampling continues to be 11 performed on a daily basis and the monthly cost is such that it far exceeds the proposed \$1,000 fee associated with less frequent sampling. Third, these cost data apply to a BRM 12 recipient who had a reverse manifest that was up and running. Experimental data are 13 needed to determine how these monthly costs might differ for less experienced mailers. 14 15 Set-up costs would be associated with the extraordinary, identifiable Postal Service costs of setting up a reverse manifest. These costs include obtaining preliminary 16 samples of the BRM to determine variation in the pieces and required sample size. 17

analysis of the sample data and mailflows to determine the ongoing sample design, and

the training of a local postal clerk in needed activities. At present, we do not have a

<sup>&</sup>lt;sup>7</sup> Calculation is as follows: 1.5 times per week \* 4.3 weeks per month equals approximately 6.5 samples per month, which is a reduction of approximately 80 percent from 30 samples per month.

It is hoped that the proposed experimental fee schedule will provide an incentive to reach the required level of accuracy.



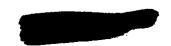
complete estimate of these set-up costs, but the proposed experiment is designed to

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2 collect these data as the Postal Service works with customers to develop their methods.

#### 2. Proposed Reverse Manifest Fees

- Given the uncertainty in the general applicability of our cost data and our present
- state of knowledge about other BRM recipients who may be interested in this method, it
- 6 is not possible to propose a fee structure with a high degree of precision. Indeed, if such
- 7 precision were possible, an experiment would be unnecessary.
- 8 We propose a combination of fees for the reverse manifest portion of the
- 9 experiment of \$1,000 per month, \$1,000 for set-up/qualification, and \$0.02 per piece.
- 10 This fee structure should attract nonletter-size BRM recipients to the experiment,
- adequately cover Postal Service costs, and more closely align fees with costs while we
- obtain more comprehensive cost data
- The monthly fee is set at a level which reflects periodic, as opposed to daily,
- sampling for a BRM recipient with characteristics similar to the one analyzed in the cost
- 15 study. As discussed above, there is considerable uncertainty surrounding this monthly
- estimate, and it would not by itself cover the costs of the daily sampling presently
- 17 required for the BRM recipient studied.
- For the experiment, the proposed fee for set-up/qualification is set at the level of
- the monthly fee. This will cover the costs of several initial samples and preliminary
- 20 analysis and review.
- A per-piece fee of \$0.02 is proposed even though the underlying cost structure
- 22 suggests that reverse manifest costs may be a constant dollar amount per month. In part,
- 23 a per-piece fee is proposed because of the present uncertainty about the appropriate level



- of participants in the experiment to be well above this level annually (see discussion in
- 469
- 2 Section VI), the costs for the reverse manifest portion of the experiment should be
- 3 adequately covered based on the preliminary data we have.
- With the reverse manifest method, combined Postal Service and BRM recipient
- 5 costs are likely to be reduced as manual calculation is replaced by a reverse manifest
- 6 produced as a byproduct of the recipient's automated incoming mailpiece order
- 7 processing system.

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- 8 B. Determining Experimental Fees for Weight Averaging Customers
- 9 1. Discussion of Weight Averaging Costs

As the testimony of witness Schenk demonstrates, weight averaging has a volume-related, per-piece component because varying amounts of nonletter-size BRM must be weighed each day. This is a fundamental difference between this method and the reverse manifest method. Witness Schenk estimates the weighing cost at Mystic and Seattle of \$0.0151 and \$0.0104 per piece, respectively, assuming her recommended changes in sampling procedures are implemented. If both companies process identical volumes of BRM pieces<sup>11</sup>, then averaging the results across the two companies results in a per-piece cost of \$0.0128 ((\$0.0151 + \$0.0104)/2). This per-piece cost excludes all of the other costs associated with sampling and daily accounting.

Like the reverse manifest method, weight averaging involves sampling costs that are largely independent of volume. Under witness Schenk's recommended procedures,

<sup>&</sup>lt;sup>11</sup> Many companies, including Mystic, Seattle, and Nashua, consider their volume data to be confidential and proprietary. To avoid using confidential volume data, our analysis assumes identical volumes of film processed by Mystic and Seattle.





- the sampling cost is approximately \$1,420 per sample, averaging across Mystic and
- 2 Seattle ((\$1,548 + \$1,292)/2). 12
- Weight averaging also involves daily accounting costs that are independent of
- 4 volume. Witness Schenk estimates these to be about \$608 a month, averaging across
- both companies ((\$893 + 324)/2).<sup>13</sup> The estimated total monthly cost for sampling and
- 6 accounting would be approximately \$2,000 (\$1,420 + \$608).
- 7 There are, however, sources of uncertainty regarding the applicability of these
- 8 cost data to other customers who might use the weight averaging method for BRM. First,
- 9 as noted above, these cost data cover just two customers in one industry. If other
- customers in other industries had more or less variability in the weight mix of their BRM
- 11 pieces, or a different pattern of seasonality in BRM received, a different sampling
- strategy might be required. This could affect the cost per sample. Second, these cost data
- apply to situations for which the weight averaging method was up and running. Without
- experimental data, it is unclear how these monthly costs might differ for post offices and
- 15 BRM recipients less experienced with these methods.

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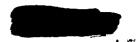
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As with reverse manifesting, set-up costs would be associated with the extraordinary, identifiable costs of establishing the weight averaging method. These costs include obtaining preliminary samples of the BRM to determine variation in pieces

<sup>&</sup>lt;sup>12</sup> Seattle maintains three separate accounts for processing its BRM. It is our understanding that separate accounts are maintained for marketing purposes. Witness Schenk estimates the sampling cost for each account to be \$646. If the proposed experimental fee structure were implemented, it is unclear if Seattle would choose to somehow combine the accounts to avoid paying three separate monthly fees, or if it would continue to maintain three separate accounts. If the accounts were combined, it is possible that the sampling strategy would need to be changed and the cost would be more than the \$646 estimated for one current account. For the purposes of this analysis, we assume that two accounts are maintained.

<sup>13</sup> For the purposes of this analysis, we assume that Seattle maintains two accounts at a cost of \$162 per account. See previous footnote.

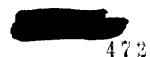


- and sample size, analysis of the sample data and mailflows to determine ongoing sample
- design, and training of a local postal clerk in needed activities. At present, we do not
- 3 have a complete estimate of these set-up costs, but the proposed experiment is designed
- 4 to collect these data as the Postal Service works with customers to develop their methods.

#### 2. Proposal for Weight Averaging Fees

- 6 Given the uncertainty in the general applicability of our cost data and our present
- state of knowledge about other BRM recipients who may be interested in this method, it
- 8 is not possible to propose a fee structure with a high degree of precision. Indeed, if such
- 9 precision were possible, an experiment would be unnecessary.
- We propose a combination of fees for the weight averaging portion of the
- experiment of \$.03 per piece, \$3,000 per month, and \$3,000 for set-up/qualification. This
- 12 fee structure should attract nonletter-size BRM recipients to the experiment, adequately
- cover Postal Service costs, and more closely align fees with costs while we obtain more
- 14 comprehensive data.

- The per-piece fee of \$0.03 and the monthly fee of \$3,000 are designed to reflect
- the uncertainty in the general applicability of our cost data to other BRM recipients.
- 17 Also, the per-piece fee is designed to maintain the fee relationship with the existing
- 18 BRMAS or prebarcoded fee of \$0.02, as discussed above in presenting the reverse
- manifest method. The per-piece fee for weight averaging is higher than that for the
- 20 reverse manifest method to reflect the significant per-piece costs of weighing each day's



BRM. For the experiment, the proposed set-up/qualification fee is set at the level of the

2 monthly fee. This will cover the costs of some initial sampling and analysis and review.<sup>14</sup>

No formal minimum volume requirement is proposed in the fee schedule because

4 the fee schedule alone should allow the BRM recipient to determine whether the fees are

cost effective. An experiment will allow us to assess this preliminary conclusion and the

6 necessity of a specific minimum volume.

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Overall coverage of costs for this portion of the experiment will depend on the average BRM volume of the participants and the applicability of our cost estimates to other BRM participants. If the average volume per participant is 1,000,000 pieces per year, the average participant will generate annual fees of \$69,000 and annual estimated costs of \$39,800.<sup>15</sup> Costs are also covered for the weight averaging portion of the experiment if the average volume per participant is about 500,000 pieces per year. Since the Postal Service expects the average volume of participants in the experiment to be well above 500,000 pieces annually (see discussion in Section VI), the costs for this portion of

the experiment should be adequately covered based on the preliminary data we have. 16

<sup>14</sup> If it were not for the need to maintain the fee relationship with the BRMAS (or prebarcoded) fee of \$.02 per piece, the proposed per-piece fees for the weight averaging and reverse manifest methods might have been lower than \$.03 and \$.02 per piece, respectively. The per-piece fee for weight averaging would have remained above the reverse manifest method to reflect the cost of weighing each day's BRM. At the same time, however, the proposed monthly and set-up fees might have been higher to make sure costs were adequately covered. Again, there is uncertainty in the general applicability of the current cost data and experimental data are needed.

<sup>&</sup>lt;sup>15</sup> Fees comprised of \$3,000 in set-up fees, \$36,000 in monthly fees (\$3,000 \* 12 months), and \$30,000 in per-piece fees (1,000,000 pieces \* \$.03 per piece). Costs comprised of \$3,000 in set-up costs, \$24,000 in monthly costs (\$2,000 \* 12 months), and \$12,800 in per-piece costs (\$.0128 \* 1,000,000 pieces).

<sup>&</sup>lt;sup>16</sup> Note also that the break-even point in BRM volume from the perspective of a customer using the weight averaging method is approximately 500,000 pieces annually. See earlier discussion in Section III.



#### 1 VI. DESIGNATION AS EXPERIMENTAL - COMPLIANCE WITH

#### 2 **SECTION 3001.67**

3

#### A. Novel in Nature

- 5 In its Opinion and Recommended Decision in the most recent experimental case,
- 6 the Commission stated that Rule 67b "...does not establish a uniform standard for the
- 7 degree of novelty...Instead, the Rule envisions that determinations will be made on a
- 8 case-by-case basis" (PRC Op., MC96-1, at 16).
- The proposed experimental change is novel for three primary reasons. First, the
- experiment involves a new kind of pricing structure one that is closely aligned with the
- unique costs of this mail and one that is designed to reflect different types of costs
- 12 properly. At present, no postal product is priced with a combination of set-up, monthly,
- and volume-related fees. At the same time, this pricing structure is designed to be
- straightforward and to make business sense to our customers.
- Second, the experiment explores new means of potentially reducing the combined
- 16 costs of the Postal Service and BRM recipients in calculating the postage and fees for
- 17 nonletter-size BRM. Third, the experiment tests whether weight averaging can be
- 18 administered in a way that both maintains high quality standards and justifies lower per-
- 19 piece fees.

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#### B. Magnitude of the Proposed Change

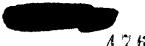
- Overall, the magnitude of this change on postal revenues, postal costs, mailer
- 22 costs, and competition should be relatively small during the course of the experiment.

- pricing structure will amount to approximately \$1.1 to \$1.8 million per year. Thus, lost
- 2 revenue would amount to approximately \$1.4 to \$3.2 million per year (\$2.5 million less
- 3 \$1.1 million and \$5.0 million less \$1.8 million). This is a relatively small amount. The
- 4 potential loss in revenue will be smaller, of course, if the number of participants is closer
- 5 to 10 than to 20, or if the new fee structure attracts new BRM volume.

#### 6 2. Cost Impacts

- There will be cost reductions associated with this revenue loss. Given the current
- 8 uncertainty surrounding our cost estimates, these reductions can only be approximated.
- 9 however. In her testimony, witness Schenk estimates the current manual cost per piece
- 10 (that is, the cost without weight averaging) to be \$0.1251 for Mystic and \$0.1044 for
- 11 Seattle. As described in her testimony, witness Schenk is unable to develop a comparable
- 12 manual cost for Nashua using the data available to her. Averaging these costs across the
- 13 two companies gives a manual per-piece cost of \$0.1147 for the weight averaging
- method, assuming these Mystic and Seattle manual per-piece costs roughly approximate
- those of other nonletter-size BRM recipients. Again, this is a tenuous assumption in light
- of the level of uncertainty regarding the applicability of these costs to other BRM
- 17 recipients.

<sup>&</sup>lt;sup>17</sup> For reverse manifest, a total of \$380,000 to \$630,000, comprised of \$10,000 in set-up fees (\$1,000 \* 10 customers), \$120,000 in monthly fees (\$1,000 \* 12 months \* 10 customers), and \$250,000 to \$500,000 in per-piece fees (12.5 million to 25 million pieces \* \$.02 per piece). For weight averaging, a total of \$765,000 to \$1,140,000, comprised of \$30,000 in set-up fees (\$3,000 \* 10 customers), \$360,000 in monthly fees (\$3,000 \* 12 months \* 10 customers), and \$375,000 to \$750,000 in per-piece fees (12.5 to 25 million pieces \* \$.03 per piece).



1 The analysis of the weight averaging method in Section V.A suggests a per-piece

cost of approximately \$.0398.18 Thus, the reduction in Postal Service costs for a weight 2

averaging participant whose BRM is currently subject to manual accounting could 3

4 amount to about \$0.075 per piece (\$0.1147 less \$0.0398). Clearly, this is a sizable

reduction that could substantially offset the loss in fee revenue. 5

6 If the amount of cost reduction is similar for a reverse manifesting BRM recipient,

7 we can apply the \$0.075 per-piece savings to the estimate of 25 to 50 million pieces

8 potentially included in the experiment. This results in total estimated cost savings of

9 from approximately \$1.9 to \$3.8 million. This range represents on upper limit on the cost

10 savings, however. Because most of the cost savings for Nashua, Mystic, and Seattle have

already been removed from the postal system, the BRM volume associated with these

companies would need to be subtracted from the calculation if these companies

participate in the experiment. As noted earlier, the confidentiality of their volume data 13

precludes including this potential adjustment in the cost reduction estimate reported here.

In addition, it is possible that BRM for some other participants is already being processed

using ad hoc weight averaging methods and that some cost savings associated with these

have already been realized. 17

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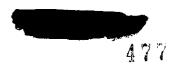
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Again, this estimated range is only an approximation. The experiment should

collect the data needed to estimate the cost savings with more precision. 19

<sup>18</sup> This is based on an average customer who receives 1,000,000 BRM pieces per year at a cost of \$39,800. Note that this is a "fully loaded" per piece cost that includes the monthly fee, as opposed to the per-piece weighing cost discussed in Section V.



#### 3. Other Factors

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- The costs to mailers of adapting their systems to qualify for these new fees are
- 3 unknown. How quickly a mailer will recoup any such costs will depend on its BRM
- 4 volume. Customers who receive millions of pieces of BRM annually should recoup
- 5 adaptation costs quickly through the savings from the lower per-piece fees. 19
- The effects on Postal Service competitors from this limited experiment should be
- 7 minimal. This is because the impact of the experiment will be to take existing BRM and
- 8 keep it as BRM, though with significantly different costs and fees. The experiment may
- 9 also convert some existing prepaid mail to BRM, again with minimal impact on
- 10 competitors.

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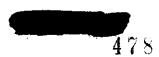
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#### C. Data Generation

Data on the impacts of the proposed change currently consist of: (1) the cost study described in the testimony of witness Schenk, and (2) the limited recipient data from the sources described previously. These data are not sufficient to definitively structure or support a permanent classification and fee change. The data needed to determine whether to consider a permanent classification and fee change are difficult to obtain at present because of the limited number of recipients using a reverse manifest or weight averaging for BRM. The available data, however, do provide the foundation for the experimental fee structure and the Data Collection Plan. Please see the Data Collection Plan included

For example, a customer receiving 2 million BRM pieces annually and using the reverse manifest method would pay \$200,000 in per-piece fees at present and \$53,000 in fees under the proposal (\$1,000 in set-up fees, \$12,000 in monthly fees, and \$40,000 in per-piece fees). Thus, the amount of first-year savings would be close to \$150,000, an amount that would cover a substantial amount, if not all, of the customer's adaptation costs.



- here as Appendix B for the Postal Service's proposed approach to obtaining the necessary
- 2 data during the experiment.

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#### D. Duration of the Experiment

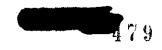
- The Postal Service requests that the Commission recommend an experiment of up
- 5 to 24 months in duration.<sup>20</sup> There are several reasons for requesting this time period.
- 6 First, it is likely to take several months to select participants and help them develop their
- 7 methods to the point where the postage and fee calculations are sufficiently accurate.
- 8 Second, once the experiment is well underway, it may take approximately one year to
- 9 collect the information necessary to determine whether a permanent change is in order.
- 10 As discussed earlier, there appears to be seasonality in film processing volumes so
- samples may need to be drawn at various times of the year to ensure that our conclusions
- 12 are valid and reliable and that accurate processes have been established to estimate
- postage and fees. For non-film BRM recipients included in the experiment, we want to
- allow sufficient time to determine whether seasonality also exists in their industries.
- During the course of the experiment, the Postal Service will be analyzing the data and
- 16 assessing whether a permanent change is warranted.

#### 18 VII. GOALS AND STRUCTURE OF THE EXPERIMENT

19 A. Goals

- The Postal Service wants to achieve five goals in conducting this experiment.
- 21 First, the Postal Service wishes to determine whether the proposed fee structure properly

The Commission stated previously that it found a two-year time frame for an experiment to be reasonable (PRC Op. MC86-1, at 87 and PRC Op. MC96-1, at 11).



- reflects costs and whether a minimum volume requirement is needed. Second, the Postal
- 2 Service wants to find out if it is feasible and practical to offer lower fees for nonletter-size
- 3 BRM recipients who use the reverse manifest or weight averaging method. Third, the
- 4 Postal Service wants to gauge the type of BRM recipient who is interested in these fees
- 5 and the overall degree of interest. Fourth, the Postal Service wishes to collect the data
- 6 needed to reliably assess the potential revenue impact of BRM fee changes. Fifth, the
- 7 Postal Service wants to more precisely measure the costs of the reverse manifest and
- 8 weight averaging methods.

#### 9 B. Data Collection Plan

A data collection plan is presented here as Appendix B.

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#### 12 VIII. CLASSIFICATION CRITERIA

- Section 3623(c) requires that changes to classification schedules be made in
- 14 accordance with the following factors:
- 15 1. The establishment and maintenance of a fair and equitable classification schedule for all mail;

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the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

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22 3. the importance of providing classifications with extremely high degrees of reliability 23 and speed of delivery;

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25 4. the importance of providing classifications which do not require an extremely high degree of reliability and speed of delivery;

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28 5. the desirability of special classifications from the point of view of both the user and the Postal Service; and

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31 6. such factors as the Commission may deem appropriate.

1 2 Achieving fairness and equity is an important goal for the Postal Service in preparing fee proposals. The proposed experimental changes promote fairness and equity 3 by establishing nonletter-size BRM fees that are more closely aligned with costs 4 5 (Criterion 1). 6 BRM has considerable value because it is more cost-effective in many cases than 7 prepaid postage envelopes. In addition, BRM enhances commerce by facilitating access 8 to services offered by firms and by facilitating responses by the public to activities such 9 as promotions, surveys, and fundraising appeals. This proposal enables the Postal 10 Service to maintain these valuable features of BRM (Criterion 2). 11 BRM travels as First-Class Mail or Priority Mail and speed of delivery is 12 important. For many companies, the prompt turn-around of customer orders is of obvious business importance. Both the reverse manifest and the weight averaging approaches can 13 14 involve significant efficiencies in processing and allow the recipient to receive its BRM in as expeditious a manner as possible (Criterion 3). Criterion 4 is not applicable in this 15 16 instance. This proposal enhances the desirability of the special service of BRM by better 17 aligning this product offering with recipient needs (Criterion 5). 18 19 IX. PRICING CRITERIA 20 Section 3622(b) of Title 39, United States Code, requires that postal rates and fees 21 be set in accordance with the following factors: 22 1. The establishment and maintenance of a fair and equitable schedule; 23



1 2	2.	the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to, the collection, mode of
3 4		transportation, and priority of delivery;
5	3.	the requirement that each class of mail or type of mail service bear the direct and
6 7		indirect postal costs attributable to that class or type plus that portion of all other costs reasonably assignable to such class or type;
8 9	А	the effect of rate increases upon the general public, business mail users, and
10 11		enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
12		outer than letters,
13	5.	the available alternative means of sending and receiving letters and other mail matter
14		at reasonable costs;
15	,	at a dame of a constant of wait for delivery into the most of system market and by the
16 17	D.	the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing the costs to the Postal Service;
18		mande and the effect apon readoning the econe to the read per time,
19	7.	simplicity of structure for the entire schedule and simple, identifiable relationships
20		between the rates or fees charged the various classes of mail for postal services;
21		the educational, cultural, scientific, and informational value to the recipient of mail
22 23	ο.	matter; and
24		
25	9.	such other factors as the Commission deems appropriate.
26		
27		The proposal potentially establishes a more fair and equitable fee schedule by
28	be	tter aligning costs with fees and by meeting all of the other criteria (Criterion 1). At
29	pro	esent, recipients of BRMAS-qualified BRM, which can be processed with automation,
30	pa	y a lower (\$0.02) per piece fee. However, recipients of nonletter-size BRM with lower
31	Po	stal Service costs do not pay a lower fee. The experiment will enable the Postal
32	Se	rvice to gather the data necessary to determine whether there is a reasonable and
33	re	liable basis for amending the current fee structure on a permanent basis. The proposal
34	all	ows nonletter-size BRM recipients who improve the overall efficiency of handling
35	ВІ	RM to also pay a lower fee (Criteria 1 and 7).



As previously discussed, BRM arguably has a high intrinsic value of service

2 (Criterion 2) because it is cost-effective and facilitates orders, access to services,

- 3 payments, and donations between businesses/organizations and customers and
- 4 correspondents. By providing a preaddressed, postage-paid document with most of the
- 5 information already printed, business reply is very convenient for correspondents. In
- 6 many cases, all they need to do is check or complete several blocks on a form. For
- businesses, BRM frequently leads to sales because it is normally associated with sales
- 8 orders and requests for information about products and services. For nonprofit
- 9 organizations, BRM is frequently a part of fundraising efforts. Thus, BRM is typically
- involved in producing revenue.

At the same time, however, nonletter-size BRM volume has not grown over the

last five years; 1995 volume was virtually the same as 1991 volume. Lack of volume

growth may indicate a perceived decline in the value of a service among mailers and

customers. Perhaps some of this decline can be traced to the existing pricing structure.

15 There are also a number of BRM alternatives, both postal and non-postal. The postal

alternatives include courtesy reply envelopes and prepaid postage in the form of self-

17 addressed, stamped envelopes.<sup>21</sup> Non-postal alternatives include toll-free phone calls,

18 though this may not be too relevant in the case of non-automatable BRM (Criteria 2 and

19 5).

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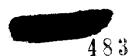
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The proposed fees for the experiment cover the costs estimated in witness

21 Schenk's testimony and make a reasonable contribution to institutional costs (Criterion

<sup>&</sup>lt;sup>21</sup> For example, some fundraising firms include a self-addressed, stamped envelope in their solicitations to encourage and facilitate a potential giver's donation.



1 3). The proposed experiment meets Criterion 4 by reducing BRM fees for participants in

the experiment.

calculation costs.

Criterion 6 concerns the degree of preparation of mail for delivery into the postal system performed by the BRM recipient. This experiment involves processing as mail leaves, rather than enters, the mail stream. Nevertheless, the proposal recognizes the role that nonletter-size BRM recipients can play in reducing Postal Service BRM fee

Criterion 7, in and of itself, would appear to suggest that the number of rate and fee alternatives be kept to a minimum. In instances where the rates and fees apply to the general public, this has been the goal of the Postal Service. However, the second part of Criterion 7 – identifiable relationships between rates or fees charged for various postal products – can suggest more, rather than fewer, rates. This is especially true for subclasses or rate categories that are more likely to be used by sophisticated businesses or other institutional customers. By definition, BRM is a service of this type. In such instances, pursuit of simplicity needs to be balanced with the recognition of Postal cost savings and the goal of maintaining fee relationships that are sensible and understandable.

BRM is not typically used to transfer information normally considered to be of scientific, educational, or cultural content (Criterion 8). In sum, the proposed fee structure for the experiment reflects a balanced consideration of all relevant criteria.

ENDIX A	484

1	APPENDIX A	4
2		
3	Schedule SS-2 - Special Services:	
4	Business Reply Mail	
5	• •	
6	<u>Description</u>	<u>Fee</u>
7	Active business reply advance deposit account:	
8	Per piece:	
9	Pre-barcoded	\$.02
10	Nonletter-size, using reverse manifest (experimental)	<b>\$</b> .02
11	Nonletter-size, using weight averaging (experimental)	<b>\$.03</b>
12	Other	<b>\$</b> .10
13	Payment of postage due charges if active business	
14	reply mail advance deposit account not used:	
15	Per piece	<b>\$.44</b>
16		
17	Annual License and accounting fees:	
18	Accounting fee for advance deposit account	<b>\$20</b> 5
19	Permit fee (with or without advance deposit	
20	account)	<b>\$8</b> 5
21		
22	Monthly fees for customers using a reverse manifest or	
23	weight averaging for nonletter-size business reply	
24	Nonletter-size, using reverse manifest (experimental)	<u>\$1,000</u>
25	Nonletter-size, using weight averaging (experimental)	<b>\$3,00</b> 0
26		
27	Set-up/Qualification fee for customers using a reverse	
28	manifest or weight averaging for nonletter-size business reply	
29	Nonletter-size, using reverse manifest (experimental)	\$1,000
30	Nonletter-size, using weight averaging (experimental)	<b>\$3,000</b>

#### APPENDIX B

#### DATA COLLECTION PLAN

#### Introduction

This appendix provides a description of the Postal Service's data collection plan for the proposed experimental changes, as is required by Rule 67c. The purpose of the data collection plan is to provide a measure of the effectiveness of the proposed experiment and the data necessary to prepare a request for a permanent classification change, should the experiment prove successful. The plan has been designed to collect data required by the Commission's Rules 64 and 54, and data desired for postal management's evaluation of the proposed changes.

The majority of the data will be collected at the postal facilities associated with the test customers during the experiment. The market research data collection effort will be coordinated through Postal Service Headquarters. No new statistical systems will be created to facilitate the data collection effort. The main categories of data to be addressed during the experiment are costs, volumes, and BRM characteristics. Additional market research, described in the plan, will be conducted in parallel to validate mailer interest and obtain additional information on the BRM mail piece characteristics of mailers not included in the experiment.

Selection of the participants for the experiment will be made in accordance with the selection criteria described in Section III.B. As the experiment gets underway, the Postal Service will establish an implementation team. This team will ensure that all data collected comply with this plan and with the requirements for a permanent classification



- change, should one be warranted. It is anticipated that contractual assistance will be
- 2 used in the implementation of the experiment, as necessary.

#### 3 Data Collection and Analysis

- 4 At present, the Postal Service proposes to use the methods described in this plan
- 5 to perform the data collection. Currently, the Postal Service believes that these methods
- 6 represent a viable method for data collection during the experiment.
- 7 There are several distinct phases of the experiment for which cost estimates will
- 8 need to be derived. The cost data to be collected during the experiment are discussed
- 9 below, as well as how data collection will be implemented in Postal Service facilities, and
- any training needed for data collection.

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#### Set-up/Qualification Fees for Both Methods

During the start-up phase of the experiment, data will be collected on volumes of BRM received, BRM characteristics (including piece weights), and any other available data which will impact revenue estimates. These data will supplement data collected as part of the selection process for the experiment. This information will be collected under the direction of a sample coordinator. A form will be developed to guide this data collection. In addition, all Postal Service personnel involved in set-up activities at each site will be required to record the time involved in all activities related to the experiment set-up, so that an estimate of the cost of the set-up phase can be made. Data will also be collected during this phase on sample BRM pieces for the participating mailers, so that the sample design for the experiment can be developed for each participating site. This data collection will be supervised by a sample coordinator.

#### Additional Costs for the Reverse Manifest Method

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2 The other phase of the experiment for the reverse manifest method involves the 3 daily activities associated with this method of rating BRM. These daily activities include daily sampling, manifest verification, and accounting activities. Data on the time it takes 4 5 Postal Service personnel to complete these tasks will be collected, as well as information on daily volumes. These data would be collected through a cost study similar to that 6 conducted by witness Schenk for this proposed experiment. At each site, the study will 7 8 be conducted after the experiment moves beyond its initial start-up phase, so that the 9 estimated costs would be representative of costs on average, that is, of costs incurred after 10 sites are familiar with the activities involved in this new method. The data collected in 11 this phase will be used to measure any per piece or monthly charges associated with the reverse manifest method. 12

#### Additional Costs for the Weight Averaging Method

For the weight averaging method, cost data are needed for two other phases of the experiment, in addition to the set-up costs. As in the case of reverse manifesting, data will be collected on the costs of daily activities associated with the weight averaging methods. These activities include daily bulk weighing and accounting. These data will be collected in a similar way to the data collected for daily activities associated with the reverse manifest method.

Data will also be collected on the costs involved in drawing the monthly sample and calculating the updated per pound conversion factors used in the weight averaging method. Sample piece weights will be recorded to be used in evaluating the sample design, as well as to facilitate calculation of new postage per pound conversion factors.



- 1 The study would be done after the experiment moves beyond its start-up phase, so that
- 2 costs will be representative of those incurred after sites are familiar with the method.

#### 3 Implementation of Data Collection Effort

needed to evaluate sample design.

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- Data on BRM volumes and characteristics for BRM recipients will be collected 5 during the start-up phase of the experiment. Cost data for the set-up phase will be collected from all involved Postal Service personnel using survey forms. Cost data for 6 7 daily and monthly activities will be collected by Postal Service personnel already at firm sites, or at Postal Service facilities which serve the participating firms, using survey 8 9 forms similar to those shown in USPS Library Reference EBR-1. It is anticipated that 10 data on sample BRM pieces will be entered on PCs using software modified from that 11 currently used at various Postal Service facilities for weighing. This software records individual piece weights electronically, so it would be ideal for use in this experiment. 12 13 Limited programming would be required to modify the differential weighing software for this use. These data could be recorded electronically to facilitate efficient conversion rate 14 15 calculations, as well as efficient analysis of experimental results, including the data
  - Although some customization of the sample design has to be done for each site because of differences in volume patterns and mail flows, data collection will be substantially standardized across sites to facilitate analysis. In addition to the same software being used at all sites to record sample data, all weight averaging sites will use the same forms to record daily activity. For reverse manifest mailers, all sites will use the sampling and postage adjustment worksheet contained in Draft Publication 405 (at Exhibit 6), a draft of which is included as USPS Library Reference EBR-3. Other forms

to be used in implementing the experiment are also included as exhibits to Draft

2 Publication 405.

3 Training of local field Postal Service personnel involved in the daily activities and

sampling for either method will be done on-site by a sample coordinator and RSCS

5 personnel.

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#### Market Research

8 Market research will be conducted in parallel to the collection of cost data.

9 The purpose of this market research is to determine the overall level of demand for

10 reverse manifesting and weight averaging among Postal Service customers receiving

nonletter-size BRM. The market research will also help us identify non-BRM, nonletter-

size mailers who may qualify for and be interested in the proposed fee structure. As such,

it will form the basis for better forecasts of the revenue and cost impacts of the proposed

fee structure should the experiment prove successful.

There would be two major phases involved in this market research: identification

of the sample frame, and a survey of potential customers.

#### Sample Frame

18 Candidate mailers for the reverse manifest and weight averaging fees would come

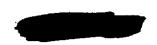
from two sources. The sample frame would identify mailers currently receiving non-

20 BRMAS BRM with significant annual volumes. In addition, the sample frame would

identify firms receiving similar volumes of nonletter-size mail which are not currently

BRM, but who would potentially be willing to supply BRM envelopes or labels to

23 customers under the proposed experimental fee structure.



No single data source is currently available to identify all non-BRMAS BRM

2 customers, and no data source is available which identifies mailers receiving nonletter-

- 3 size non-BRM. For these reasons, the sample frame of candidate mailers would
- 4 necessarily be comprised of several different data sources. The multiple data sources
- 5 available do not provide 100 percent coverage of the universe of candidate mailers, but
- 6 would identify numerous candidates. Other candidate mailers will be identified to the
- 7 Postal Service through direct communication from the mailer, who will become aware of
- 8 the experimental fee structure through public notices on the experiment, the related
- 9 Commission hearings, information disseminated by Postal Service account
- 10 representatives, and information supplied by mailer trade associations.
- Approximately 20-25 percent of BRM volume is in the PERMIT database. The
- information available in the PERMIT system is of somewhat limited use in identifying
- candidate mailers, because this database does not include information as to what rate is
- being paid by the mailer (i.e., BRMAS or non-BRMAS), or what shape mail the mailer is
- 15 receiving. However, mailers receiving nonletter-size BRM can be inferred by the average
- revenue per piece (which indicates heavier pieces, so therefore may be nonletter-size).
- 17 Using the PERMIT system we can identify mailers who have high average revenue per
- 18 piece by name.
- Another source of information on candidate mailers is a survey of BRM activity at
- 20 Postal Service facilities that is currently being done by Christensen Associates at the
- 21 request of the Postal Service. This survey will identify Postal Service facilities receiving
- 22 and processing high volumes of nonletter-size BRM. This survey will include facilities
- 23 not reporting BRM activity in the PERMIT system. The coverage of the BRM universe



- achieved by this survey will ultimately depend on the response rate. Follow-up
- 2 discussions with the survey sites which indicate receiving high volumes of nonletter-size
- 3 BRM will help identify candidates for the weight averaging and reverse manifest methods
- 4 among current BRM mailers.
- Various business databases (for example, SelectPhone, Dun&Bradstreet) could be
- 6 used to identify companies in industries identified to be most likely to have firms who
- 7 receive nonletter-size postage paid mail from their customers. These databases list
- 8 businesses by location, and include industry classification (Standard Industrial
- 9 Classification, or SIC, code). These sources would help identify other (non-BRM)
- mailers in the same industry as previously identified candidate mailers (for example,
- other through-the-mail film developers or medical testing labs). Another possible source
- for identifying these candidates would be trade associations lists. Postal Service
- personnel will also help identify companies or industries currently receiving non-BRM
- 14 candidate mail.

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#### Survey Design

- The survey of candidate mailers would collect information necessary for the
- 17 Postal Service to determine whether the mailer is a viable candidate for the new BRM
- 18 fees, and to determine the mailer's level of interest in the weight averaging or reverse
- 19 manifest methods.
- The actual survey instruments used would be developed based on information
- 21 obtained from the Christensen Associates' survey of BRM activity, information obtained
- 22 during site selection for the experimental case, and information obtained from Postal
- 23 Service personnel knowledgeable on BRM activities.